

INTEROFFICE MEMO



County of San
Bernardino

DATE January 29, 2001

PHONE 387-5563

FROM EVALUATION COMMITTEE FOR
THIRD PARTY ADMINISTRATOR RFP

TO WILLIAM H. RANDOLPH
COUNTY ADMINISTRATIVE OFFICER

SUBJECT RESULTS OF RFP FOR THIRD PARTY ADMINISTRATIVE (TPA) SERVICES TO
ARMC AND HUMAN RESOURCES DEPARTMENTS

Background: On April 18, 2000, the Board of Supervisors authorized the County Administrative Office, in conjunction with the Arrowhead Regional Medical Center and the Human Resources Department, to issue a Request for Proposal (RFP) for Third Party Administrative (TPA) services. The purpose of the RFP was to seek proposals from qualified and experienced companies that provide administrative support for medical utilization review and claims adjudication services for a variety of health and employee benefit claims. The RFP was mailed to eleven (11) third party administrative firms in California. Three (3) firms responded, with the other firms declining to submit proposals. The three responding firms were American Insurance Administrators, Los Angeles; Arrowhead Health Administrators, a Joint Powers Authority, San Bernardino; and SMA-USIA, Riverside. It should be noted that Arrowhead Health has been the County's TPA since 1988.

A RFP Evaluation Committee of five (5) members was established by the CAO with representatives from the Arrowhead Regional Medical Center (ARMC), Human Resources, the Auditor/Controller-Recorder, Human Services System Administration, and Riverside County Human Resources. The Committee evaluated each proposal in three separate phases.

1. The Auditor/Controller-Recorder rated the financial strength of each proposing firm. Based on this analysis the Committee eliminated the SMA-USIA proposal.
2. The Committee subjected the remaining proposals submitted by American Insurance Administrators and Arrowhead Health to: (1) a comprehensive technical review and numerical rating of their content; and (2) a presentation to the Committee by the management staff of each proposing firm verifying the company's proposed fees and fee guarantees, claims adjudication experience, system reporting capabilities, customer service effectiveness, and ability to rapidly respond to the County's changing TPA needs and requirements. The Committee members subsequently verified this information with an on-site visit to the main work site facilities of Arrowhead Health and American Insurance Administrators.
3. Lastly, the Committee members adjusted their initial numerical ratings of the finalists' proposals based on the results of the proposing firms' presentations and the results of the on-site visits.

Each Committee member performed his/her comprehensive analysis and evaluation of the two remaining RFP proposals independently and confidentially. The final ratings given to the proposals and capabilities of Arrowhead Health and American Insurance Administrators by each member result in an unanimous Committee decision that American Insurance Administrators has provided

the County with the overall best proposal. The major reasons cited by the Committee members in their written summaries of findings include the superior automated system flexibility and reporting capabilities of American Insurance Administrators, and the firm's significantly lower fees for adjudicating the medical claims of ARMC's public service programs. It's estimated ARMC will save nearly \$1,000,000 in TPA fees over the next three years by contracting with American Insurance Administrators versus contracting with Arrowhead Health Administrators. The administrative fees proposed by these firms for the Human Resources benefit programs are nearly the same. Nonetheless, Human Resources will benefit by a contract with American Insurance Administrators due to the increased financial and statistical data reports and ad-hoc reporting capabilities that will be available to the Department for its management of the County's benefit programs the firm will support.

A summary comparing the estimated annualized costs of the fees proposed by American Insurance Administrators and Arrowhead Health, and a summary of the Committee member's evaluations and findings are attached.

Recommendation: Request the Board of Supervisors approve contracts with American Insurance Administrators to serve as the County's Third-Party Administrator for adjudicating: (1) the health claims of ARMC's public service programs; and (2) the employees' claims for the following benefit plans managed by Human Resources: the County's three Vision Care plans, the Dependent Care Assistance Program, and the Exempt Employees' Medical Reimbursement Plan.

Recommendation Impact: There are three currently identified impacts of this recommendation that need to be addressed.

1. Contracting with American Insurance Administrators for third party administrative services will result in the closing of Arrowhead Health Administrators. Arrowhead Health Administrators currently has a seven (7) month prior-notice termination clause in its contract with its claims adjudication system software vendor. As the software lease payments are a substantial monthly cost to Arrowhead Health Administrators, it is advisable that Arrowhead Health is notified as quickly as possible if it appears County officials will proceed with implementing the Recommendation of the RFP Evaluation Committee. American Insurance Administrators reports they will need three to four months of preparation time before beginning the processing of County claims. Human Resources' past experiences with similar system conversions have resulted in delays that nearly double the estimated time needed for development, testing, and implementation. Subsequently, a realistic implementation target month for moving the County's current TPA services from Arrowhead Health Administrators to American Insurance Administrators is August 2001.
2. The claims processing for the County's Short-Term Disability plans will need to be assumed by Human Resources and managed by the Employee Health and Productivity Program (EHaP) Section. With the 1998 implementation of the County's new Employee Management and Compensation System (EMACS), Arrowhead Health was provided limited access to EMACS for processing Short-Term Disability claims. This significantly improved the timely and accurately processing of employees' claims. Since Arrowhead's Board is comprised mainly of County employees with annual audit oversight by the Auditor/Controller-Recorder, and is located next to the EMACS Team in the County's Hall of Records, giving Arrowhead Health access to EMACS has been productive and cost effective. It would not be prudent or advisable, however, to provide access to the County's highly complex and confidential HR/Payroll system to a third-party administrator that has no County representation in its management nor County audit oversight. The annual administrative fees paid to Arrowhead Health for Short-Term Disability claims processing is approximately \$240,000. If Human Resources assumes the claims processing functions for these plans, eliminating Arrowhead's

administrative fees would more than offset the costs for added personnel and system support for two claims processors that would be needed for the next Budget Year.

3. Human Resources and ARMC will be required to transfer and store their claims processing records currently housed by Arrowhead Health for at least seven (7) years. In addition, the Medicare Secondary Payor requirements of the federal Health Care Financing Administration (HCFA) require that claims data for the County's defunct Flex-Med Health Plan will have to be maintained beginning with 1989 through the Plan's last claims' payments made in 1997. The potential cost of storing and maintaining this vast amount of data and claims forms in a retrievable manner may be considerable. An evaluation of these requirements and their estimated costs for Human Resources and ARMC should begin as soon as possible.

The above Recommendation impacts are those that have been identified to date. There may be more that have yet to be identified. Subsequently, it is advisable that both ARMC and Human Resources begin working with American Insurance Administrators and Arrowhead Health as quickly as possible so that the transition of TPA services can be completed with as little disruption and as cost effectively as possible.